# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 6607**
**BILL NUMBER:** HB 1008

**NOTE PREPARED:** Jan 21, 2004
**BILL AMENDED:** Jan 20, 2004

**SUBJECT:** Local Unit Option Income Tax.

**FIRST AUTHOR:** Rep. Lytle
**FIRST SPONSOR:**

**BILL STATUS:** 2nd Reading - 1st House

**FUNDS AFFECTED:** X GENERAL
DEDICATED
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) The bill authorizes a fiscal body of a city, town, or county to impose an additional income tax. The bill requires at least 75% of the revenue to be used for property tax relief.

**Effective Date:** (Amended) Upon passage.

**Explanation of State Expenditures:** (Revised) *Department of State Revenue:* Under the bill, a special account would be established within the state General Fund for the deposit of revenue collected from a local unit option income tax (LUOIT). Revenue remaining in the special account at the end of the state fiscal year would not revert to the state General Fund. The Department would determine, with the recommendation of the Budget Agency, the amount LUOIT to be distributed to adopting units. The distribution would equal the amount of LUOIT revenue received and reported in the year preceding the determination by the Department on income tax returns (or amended returns) processed by the Department in the fiscal year ending before July 1, in the calendar year in which the determination is made. Therefore, adopting units would receive LUOIT distributions in a given year based on audited returns adjusted for refunds from two years previous.

The Department would certify to adopting units before August 2, in each calendar year their distribution for the succeeding year including interest earned in the unit's special account.

The Department would be able to certify a lesser amount if, after review of the Budget Agency, the Department determines that a reduced distribution is necessary to offset overpayments of LUOIT revenue in a prior calendar year. The reductions may be spread over a several year period instead of a single lump-sum payment. A unit that either initially imposes or raises the rate of an existing LUOIT in a given calendar year would receive an adjustment to their certified distribution in the immediately following calendar year.

Before October 2, of each year, the Department would be required to send a report to each adopting unit that shows the balance of the unit's special account.

One-twelfth of an adopting unit's annual certified distribution would be distributed to the unit from its special account on the first day of each month of the calendar year. The distributions would be made upon warrants issued by the Auditor of State to the Treasurer of State.

The Department would need to revise the withholding and IT-40 tax forms to allow for the reporting of a LUOIT.

These provisions would require additional administrative time of the Department and the Budget Agency to implement. Until audited returns would be available to determine a certified distribution, under the bill, the Department and the Budget Agency would have to project the amount of distribution to be paid to a unit.

*Background:* Current cost for the Department of State Revenue to administrate, audit, and collect local taxes is approximately $0.51 per $100 of revenue.

*PTRC & Homestead Credit:* Under the bill, 75% of revenue generated by a LUOIT would be used to target property tax relief to non-corporation and non-utility taxpayers. The relief may be applied to all eligible taxpayers or targeted to certain taxpayer classes, certain property classes, or certain geographic areas. Given these provisions, it is unclear what the affect of the relief would have on the basis of the state Property Tax Replacement Credits (PTRC) or state homestead credits. The affect would depend on the method of application of the relief.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** Under the bill, a fiscal body of a unit (city, town, or county) would be able to adopt a LUOIT. However, the unit would first be required to provide notification to the unit's parent county and other municipalities in the county of the *introduction* of an ordinance to adopt the LUOIT. Introduction and adoption of an ordinance to impose a LUOIT would not be allowed in the same day. If a LUOIT were adopted, the tax would be required to be paid and collected in the same manner as the county option income tax (COIT). Therefore, an established LUOIT would be paid to the Department of State Revenue at the same time as the state's Individual Adjusted Gross Income Tax.

**Explanation of Local Revenues:** (Revised) *Summary-* The following table provides estimates of a **total statewide impact,** assuming **all** units statewide adopted a LUOIT under the bill. The final column presents the estimated statewide property tax relief at 75% of the revenue from LUOIT as required under the bill.

| Imposed Rate | Statewide Estimated Revenue Generated By LUOIT (CY 2005)* | 75% Statewide Estimate For Property Tax Relief |
|---|---|---|
| 1.0% | $1,198.0 M | $898.5 M |
| 0.75% | $898.5 M | $673.9 M |
| 0.5% | $599.0 M | $449.3 M |
| 0.25% | $299.5 M | $224.6 M |
| * Based on January 12, 2004, Technical Committee Revenue Forecast. | | |

The above estimate also assumes that LUOIT would be adopted by units as soon as possible. Given the effective date of this bill, this would mean an adoption of a resolution before July 1, 2004, where the tax would become effective July 1, 2004, for a certified distribution in CY 2005.

Under the bill, the first distribution of revenue would be required to commence not later than 30 days after the effective date of an ordinance that would adopt LUOIT. However, the Department would most likely need additional time to set up the mechanisms (new or revised withholding reporting forms) to process and make payments of LUOIT to adopting units. Additionally, employers would most likely not begin adjusting payrolls for withholding LUOIT until about two months after adoption of the tax.

*Tax Imposition Requirements*- Under the bill, the fiscal body of a unit (city, town, or county) would be able to impose a LUOIT at an initial rate of 0.25%, 0.5%, 0.75%, or 1.0%. The maximum rate of a LUOIT by a unit on the adjusted gross income of a unit income taxpayer would not be allowed to exceed 2.0%. However, if the unit's parent county imposed either a LUOIT, a county adjusted gross income tax (CAGIT), a county option income tax (COIT), or a county economic development income tax (CEDIT), the combined unit's LUOIT and county's tax rate would not be allowed to exceed 2.0% of a unit income taxpayer's adjusted gross income. A county's CAGIT, COIT, and CEDIT rate that currently is allowed by law to exceed the 1.25% maximum combined rate would not count against the 2.0% combined unit and county tax rate. (Current law allows, with exceptions, a maximum combined CEDIT and COIT rate of 1.0% and a maximum combined CEDIT and CAGIT rate of 1.25%.)

The bill would allow an adopting unit to incrementally increase the LUOIT rate annually by 0.25% until reaching 1.0%.

Two or more units could adopt ordinances to impose a joint LUOIT. The ordinances would be required to state the distribution of revenue to units that act together to adopt a joint LUOIT.

*Nonresident Rates*- Under the bill, the LUOIT rate imposed on nonresident unit taxpayers would be 0.25 of the rate imposed on resident unit taxpayers. The combined rate of LUOIT, CAGIT, COIT, or CEDIT may not exceed 0.5% on nonresident taxpayers' adjusted gross income.

*Revenue Uses*- As stated above, adopting units would be required to devote at least **75%** of revenue generated by LUOIT for targeted property tax relief for all property taxpayers, certain classes of taxpayers and property, or real or personal property located in specific geographic areas within the unit. The property tax relief generated by LUOIT revenue would exclude taxpayers that are corporations or public utility companies to the extent allowed by the Constitution of the State of Indiana.

A unit that was able to replace their entire property tax revenue (other than property tax levies that cannot be eliminated due to payment of bonds, leases, or other obligations) with less than 75% of the revenue generated by the unit's LUOIT would not have to adhere to the requirement to use 75% of LUOIT revenue for property tax relief.

**State Agencies Affected:** Auditor of State; Department of State Revenue; Treasurer of State; State Budget Agency.

**Local Agencies Affected:** Local units of government.

**Information Sources:** *Indiana Handbook of Taxes, Revenues, and Appropriations;* Bob Walls, Department of State Revenue; Technical Committee Revenue Forecast, January 12, 2004.

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